

The Debt Service Fund has a fund balance of \$78,023. The Debt Service Fund fulfills the criteria to be considered a major governmental fund because of its large assets, liabilities, and expenditures.

Kill Creek Sewer has a fund balance of (\$3,847,015). This is an increase of \$249,222 from the previous year. The increase is due to an increase in debt service expenditures. Kill Creek Sewer is considered a major governmental fund because of its large liability. This capital project was completed in 2009.

Proprietary funds

The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of 2009, unrestricted net assets for the business-type activities amounted to \$7,587,496, an increase of \$16,575.

The Electric Fund had total net assets of \$25,305,472 at the end of 2009. This is an increase of \$2,238,963 from the previous year. The key component of this increase is an increase in operating income before transfers of \$2,919,522.

The Water Fund had total net assets of \$15,802,933 at the end of 2009. This is a decrease of \$554,307 from the previous year. This is attributable to a \$1,200,000 transfer of funds to the Sewer Fund, part of which was offset by an increase in operating income and a cancelled capital project of \$313,245.

The Wastewater Fund had total net assets of \$10,991,060 at the end of 2009. This is an increase of \$436,087 from the previous year. Key components of this increase include an increase in operating revenue for charges for sales and services of \$241,388 compared to the prior year and the aforementioned transfer from the Water Fund of \$1,200,000. This income increase was partially offset by an increase in debt service of \$775,198.

The City's Internal Service Funds had total net assets of \$37,743 at the end of 2009.

Fiduciary funds

The City maintains a fiduciary fund for the assets of the Alcohol Safety Action Program. This fund accounts for the amount collected from municipal court to be remitted to the State of Kansas. At the end of 2009, the assets of the fund were \$30,627.

GENERAL FUND BUDGETARY HIGHLIGHTS:

There was no difference between the original budget and the final budget. During the year, however, total revenues were less than budgetary estimates by \$659,466, or 7.8%. A summary of significant differences between budgetary estimates for revenue and actual collections is as follows:

- Property tax collections were less than the original estimate by \$43,203, or 1.3%.
- Sales tax was less than the revenue estimate by \$270,113, or 16%.

- Charges for services were more than the estimate by \$5,125. The majority of this increase is due to aquatic admissions, concessions and tournament fees exceeding expectations.
- Investment earnings were lower than anticipated by \$76,230, or 83%. Interest rates decreased steadily during 2009.
- Licenses and permits were less than the original estimate by \$57,259, or 20%. This decrease is seen in the reduction of building permits issued in 2009, compared to the prior year.

In addition, expenditures were less than budgeted by \$3,371,549. Project reserves of \$2,265,929 were budgeted but not utilized, accounting for much of the difference. Further budget variances are a result of both position vacancies and the elimination of salary increases, reduction in overtime, and the subsequent decreases in related employee benefits. A continuing conscious effort to reduce expenditures resulted in significant savings in contractual services, commodities, capital outlay, and internal service funds. The budget variances are as follows:

- General Government expenditures were \$306,991 less than budgeted, or 13%.
- Public Works expenditures were \$403,591 less than budgeted, or 21%.
- Public Safety expenditures were \$482,485 less than budgeted, or 13%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2009, amounted to \$142,489,924 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, roads, water lines, sewer collectors and electric lines. The total increase in the City's investment in capital assets for 2009 was 1.4% (a 2.6% increase for governmental activities and a .8% increase for business-type activities).

City of Gardner's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$4,477,337	\$4,464,863	\$2,193,349	\$2,191,420	\$6,670,686	\$6,656,283
Water Rights	0	0	475,000	475,000	\$475,000	\$475,000
Construction in progress	10,674,031	13,526,490	1,989,351	18,119,313	\$12,663,382	\$31,645,803
Buildings	5,203,314	5,364,193	618,400	-	\$5,821,714	\$5,364,193
Improvements	1,207,663	1,314,644	-	-	\$1,207,663	\$1,314,644
Infrastructure	26,023,148	21,442,077	86,749,237	70,976,588	\$112,772,385	\$92,418,665
Machinery and equipment	609,809	688,300	214,159	168,750	\$823,968	\$857,050
Vehicles	1,450,029	1,586,354	605,097	615,044	\$2,055,126	\$2,201,398
	<u>\$49,645,331</u>	<u>\$48,386,921</u>	<u>\$92,844,593</u>	<u>\$92,546,115</u>	<u>\$142,489,924</u>	<u>\$140,933,036</u>

The majority of the City's increase in capital assets can be attributed to infrastructure additions. Some infrastructure projects that concluded and were placed in service include:

- Hillsdale Water Plant Expansion
- Bull Creek Lift Station
- Kill Creek Sewer
- Kill Creek Water Tower
- Kill Creek Drive/Storm Sewer
- Lincoln Lane

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-Term Debt

At the end of 2009, the City had total long-term debt outstanding of \$81,591,578. Of this amount, \$32,902,028 was general obligation debt backed by the full faith and credit of the City. However, \$23,524,828 (72%) of the general obligation debt is supported by business-type revenues. Another \$10,307,972 of the City's long-term debt outstanding is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment.

In 2002, the City entered into an irrevocable lease agreement with the Public Building Commission (PBC), a separate, not-for-profit corporation formed for the sole purpose of financing the remodeling and enlarging of City Hall. The purpose of the lease agreement is for the City to rent the building financed by the PBC Lease Revenue bonds. The rental payments are the same as the scheduled debt payments, and because the lease is irrevocable, the City is liable for the associated revenue bonds.

In 2006, the City purchased \$7,150,000 of Certificates of Participation to fund the aforementioned Celebration Park. The debt is paid for with a ten year ½ cent sales tax increment voters approved in 2005.

City of Gardner's Long-Term Debt
December 31, 2009

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General obligation bonds	\$9,377,200	\$10,483,950	\$23,524,828	\$23,891,050	\$32,902,028	\$34,375,000
Special assessment debt with government commitment	10,307,972	5,255,000	-	-	\$10,307,972	5,255,000
PBC revenue bonds	3,545,000	3,660,000	-	-	\$3,545,000	3,660,000
Construction loan payable	4,065,034	1,799,761	24,183,410	25,433,886	\$28,248,444	27,233,647
Certificates of Participation	5,665,000	6,140,000	-	-	\$5,665,000	6,140,000
Capital lease obligations	830,353	911,755	92,781	135,533	\$923,134	1,047,288
	<u>\$33,790,559</u>	<u>\$28,250,466</u>	<u>\$47,801,019</u>	<u>\$49,460,469</u>	<u>\$81,591,578</u>	<u>\$77,710,935</u>

More detailed information about the City's long-term debt is presented in Note 12 to the basic financial statements and information regarding the bond anticipation notes in Note 13.

ECONOMIC FACTORS

Located in Johnson County along Interstate 35, about 30 miles southwest of downtown Kansas City, MO, Gardner has benefited from its location near the Kansas City Metro Area. This has contributed to growth in the City's assessed valuation of 69.1% in the last five years alone.

In addition, the 2000 census indicated considerable population growth of 295% since 1990. From 2000 through 2009, the City averaged an estimated additional population growth of 1,000 residents each year to its current estimated population of over 18,000. Wealth levels and housing values exceed state averages, and Johnson County's 2009 unemployment rate at 5.8% was slightly below the state's rate of 6.2%. More information regarding the City's demographics can be found in the Statistical section.

The City maintains an A2 rating from Moody's Investors Service. Moody's believes that despite the recent national economic slowdown Gardner's tax base growth will continue in the long run, driven by residential development that is the result of affordable housing and quality schools, as well as the availability of land for development. Although the Gardner City Council declined to move forward with a planned intermodal distribution facility and subsequently deannexed the 1,000 acres associated with the project that had been previously annexed into the City, the entire region is expected to benefit from the additional jobs that will be created when the industrial park is completed after it is annexed by a neighboring city. More information regarding the City's assessed valuation and property tax revenues can be found in the Statistical section.

Moody's notes their expectation that the City's financial health will remain satisfactory in the near term, but expresses some concern with the City's plan to draw down on General Fund reserves to a level where reserves will equal approximately 20% of the General Fund budget through 2011. Moody's favorably notes that expected increases in property and sales tax revenue as the City's only TIF district pays off in approximately 2014 should result in a rebound of reserves to 30% of General Fund revenue by 2015.

Moody's favorably notes that although the City's sales tax revenues were affected by the overall economic slowdown, (decreasing 3.8% from 2008) City officials made multiple adjustments to mitigate the shortfall, including delaying capital expenditures, cutting positions through attrition, eliminating pay increases for employees, and extending the payment terms for some state loans.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Finance Department, 120 East Main, Gardner, Kansas 66030.